

REPORT OF EXAMINATION
OF THE
LAWYERS' MUTUAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Filed May 26, 2011

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Los Angeles, California
March 31, 2011

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

LAWYERS' MUTUAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 3110 West Empire Avenue, Burbank, California 91504.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

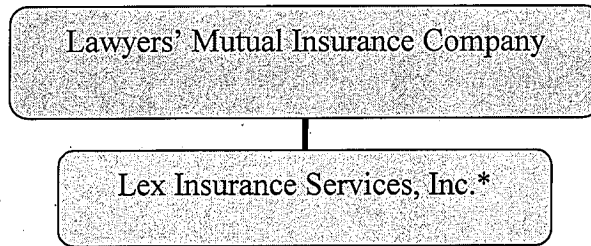
At the Company's inception, the California Department of Insurance (CDI) authorized the infusion of additional capital via the issuance of up to \$24,280,000 in certificates of contribution (certificates) to its policyholders. The funds were solicited in order to provide the surplus needed to adequately capitalize the growth of the Company. The certificates do not bear interest, and repayment is subject to prior approval by the Company's Board of Directors and the CDI.

During 1997, the Company initiated the redemption of policyholder contribution certificates with approval from the CDI. Since 1997, the Company has repaid a total of \$3.8 million in contribution certificates. The total policyholder contribution certificates which remain outstanding as of December 31, 2009 amount to \$1.9 million. As documented under the caption "Surplus adjustments: Paid-in," of the Reconciliation of Surplus as Regards Policyholders from December 31, 2006 through December 31, 2009 contained in this report, the Company redeemed one certificate of contribution in the amount of \$203.

During the years 2007, 2008, and 2009, dividends paid to policyholders totaled \$3.8 million, \$3.6 million, and \$3.4 million, respectively.

MANAGEMENT AND CONTROL

As a mutual insurer, the Company is owned by its policyholders. The following organizational chart depicts the Company's relationship within the holding company system:



*The Company's wholly-owned subsidiary, Lex Insurance Services, Inc. has been inactive since 2003

Management of the Company is vested in an eleven-member board of directors. The directors serve staggered terms of five years. Each director must be a policyholder of the Company or a named insured. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence

Thomas H. Ault
Burbank, California

Richards D. Barger
San Marino, California

Hal H. Bolen II
Fresno, California

Principal Business Affiliation

President and Chief Executive Officer
Lawyers' Mutual Insurance Company

Attorney at Law
Barger and Wolen

Attorney at Law
Bolen, Fransen & Boostrom

Name and Residence

Alan K Brubaker
San Diego, California

William H. Carson
Black Butte Ranch, Oregon

Robert A. Chick
Los Angeles, California

Karen D. Kadushin
Pebble Beach, California

George King
Oakland, California

George R. McCambridge
Montecito, California

Angela E. Oh
Redondo Beach, California

Robert C. Schleh
Sacramento, California

Principal Business Affiliation

Attorney at Law
Wingert, Grebing Brubaker & Goodwin, LLP

Attorney at Law

Chairman of the Board
Lawyers' Mutual Insurance Company

Attorney at Law

Attorney at Law
King, King & Fishleder

Attorney at Law

Attorney at Law
Bird, Marella, Boxer, Wolpert, Nessim,
Drooks & Lincenberg

Attorney at Law

Principal OfficersNameTitle

Thomas H. Ault
Gary E. Davis
Anacorita D. Chiong
Joanne P. Cohen
Gabriel Micu
Cathleen M. Sargent
Kim T. Spirito

President and Chief Executive Officer
Vice President and Secretary
Vice President and Treasurer
Vice President
Vice President
Vice President
Vice President

Management Agreements

Authorization for the direct management of the Company's investment portfolio has been granted to four individual investment management firms. Each firm is responsible for the management of a designated segment of the Company's investment portfolio. Within the confines of the Company's codified guidelines, each investment management firm has authority to execute transactions without prior consultation with the Company's management. Management fees are predicated upon the application of a specified percentage to the market valuation of each managed portfolio. The following depicts a summarization of the direct investment management agreements:

		Fees Paid		
	Managed	2007	2008	2009
Agreement	Fund			
Prime Advisors, Inc.	Fixed Income	\$302,026	\$309,496	\$323,285
Santa Barbara Asset Management*	Growth Equity	\$102,421	\$ 99,775	\$ 56,820
Reed, Connor and Birdwell	Value Equity	\$112,985	\$104,599	\$ 83,634
Denver Investment Advisors, LLC	Small Cap	\$ 30,184	\$ 26,394	\$ 18,802
Stralem & Company *	Growth Equity			\$ 21,229

*During September 2009 Stralem & Company replaced Santa Barbara Asset Management as the manager of the Company's growth equity portfolio

In addition to the above, the Company also maintains an investment consulting agreement with Beacon Point Advisors (BPA). Among the services provided by BPA is the historical performance evaluation of the above referenced four investment management firms. The fee charged for services rendered by BPA is predicated upon the application of .5% to the cumulative market valuation of the four managed portfolios. For the years 2007, 2008, and 2009 the Company paid BPA \$140,643, \$141,784, and \$137,092, respectively.

TERRITORY AND PLAN OF OPERATION

The Company is a monoline mutual insurance company authorized to transact professional liability insurance solely in California. Malpractice insurance policies are issued to members of the California State Bar who are residents of the State of California, maintain their principal offices in the State of California, and meet certain underwriting standards. The Company's current business profile consists primarily of smaller law firms. Currently, the Company has 7,605 policies in-force covering 10,948 lawyers.

Although policies are issued on a "claims made" basis, the Company offers additional coverage for extended reporting period endorsements to cover exposures reported after the termination of the original policy. Standard policy limits are \$2,000,000 per policy with an aggregate limit of \$4,000,000. The Company's maximum policy limits are \$5,000,000 each claim with a \$7,000,000 annual aggregate.

During 2009, the Company wrote \$44.4 million of direct premiums. Approximately 57 percent of the Company's business is written on a direct basis; the remaining business is produced by 113 brokerage firms.

REINSURANCE

Assumed

During the period covered by this examination, the Company did not assume reinsurance.

Ceded

Under the terms of an excess of loss reinsurance agreement, the Company is responsible for the first \$750,000 of ultimate net loss as respects each claim, each policy. In addition, the Company maintains excess cessions reinsurance coverage which is applicable to policies issued with greater than the standard policy limits of \$2,000,000/\$4,000,000.

The following depicts in schedule form the Company's major ceded reinsurance contracts in-force as of December 31, 2009:

Type of Contract	Reinsurer	Company Retention	Reinsurers' Limits
Excess of Loss	58.5% Various Lloyd Syndicates (A) 20.0 % Aspen Insurance UK Limited (U) 15.0% Hannover Ruckversicherung- Aktiengesellschaft (A) 6.5% Berkley Insurance Company (A)	\$750,000	\$4,300,000 excess of \$750,000 inclusive of of any extra contractual obligations, loss in excess of policy limits, and loss expense
Excess Cessions	58.5% Various Lloyd Syndicates (A) 20.0% Aspen Insurance UK Limited (U) 15.0% Hannover Ruckversicherung- Aktiengesellschaft (A) 6.5% Berkley Insurance Company (A)	Retention under the Excess of Loss Agreement	\$3,000,000 excess of Company's standard policy limits of \$2,000,000/\$4,000,000

(A) – authorized reinsurer

(U) – unauthorized reinsurer

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 200,013,599	\$	\$ 200,013,599	
Common stocks	32,611,076	279,538	32,331,538	
Real estate	3,341,692		3,341,692	
Cash and short-term investments	10,246,360		10,246,360	
Investment income due and accrued	2,323,656		2,323,656	
Uncollected premiums and agents' balances in course of collection	3,755,204		3,755,204	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	695,099		695,099	
Amounts recoverable from reinsurers	1,721		1,721	
Net deferred tax asset	2,422,067		2,422,067	
Electronic data processing equipment	56,545	56,545		
Furniture and equipment	1,892	1,892		
Aggregate write-ins for other than invested assets	<u>595,440</u>		<u>1,595,440</u>	
Total assets	<u>\$ 257,064,351</u>	<u>\$ 337,975</u>	<u>\$ 256,726,376</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 61,011,038	(1)
Loss adjustment expenses			40,806,551	(1)
Commissions payable, contingent commissions and other similar charges			107,522	
Other expenses			1,022,443	
Current federal and foreign income taxes			1,959,879	
Unearned premiums			21,604,893	
Advance premium			862,534	
Ceded reinsurance premiums payable			245,172	
Funds held by company under reinsurance treaties			3,104,577	
Amounts withheld or retained by company for account of others			246,768	
Remittances and items not allocated			5,407	
Payable for securities			12,350	
Aggregate write-ins for liabilities			<u>561,390</u>	
Total liabilities			131,550,524	
Gross paid-in and contributed surplus		\$ 1,950,221		
Unassigned funds (surplus)		<u>123,225,631</u>		
Surplus as regards policyholders			<u>125,175,852</u>	
Total liabilities, surplus and other funds			<u>\$ 256,726,376</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned \$ 40,775,173

Deductions:

Losses incurred	\$ 12,334,490	
Loss expenses incurred	15,409,885	
Other underwriting expenses incurred	<u>7,577,373</u>	

Total underwriting deductions 35,321,748

Net underwriting gain 5,453,425

Investment Income

Net investment income earned	\$ 7,210,883	
Net realized capital loss	<u>(1,119,908)</u>	

Net investment gain 6,090,975

Other Income

Aggregate write-ins for miscellaneous income \$ 433,787

Total other income 433,787

Net income before dividends to policyholders
and before federal income taxes 11,978,187

Dividends to policyholders 3,449,106

Federal income taxes incurred 2,916,852

Net income \$ 5,612,229

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008 \$ 110,834,844

Net income \$ 5,612,229

Change in net unrealized capital gains 8,865,501

Change in net deferred income tax (111,254)

Change in nonadmitted assets (25,468)

Change in surplus as regards policyholders 14,341,008

Surplus as regards policyholders, December 31, 2009 \$ 125,175,852

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006,
per Examination

\$105,600,643

	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>
Net income	\$25,282,628	\$
Change in net unrealized capital losses		5,173,173
Change in net deferred income tax		223,434
Change in nonadmitted assets		310,609
Surplus adjustments: Paid-in	<u> </u>	<u>203</u>
Totals	<u>\$25,282,628</u>	<u>\$5,707,419</u>

Net increase in surplus as regards policyholders

19,575,209

Surplus as regards policyholders, December 31, 2009
per Examination

\$125,175,852

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expense

Based upon a review conducted by a Casualty Actuary from the California Department of Insurance, the Company's reserves for losses and loss adjustment expenses as of December 31, 2009 were found to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records (Page 7): It was recommended that the disaster recovery plan be updated and tested at the earliest possible time. The Company has complied with the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_____/S/_____
David A. Fischman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California